





THE GEORGE WASHINGTON UNIVERSITY

THE RATIONALE FOR AND SOME LIMITATIONS  
OF DECENTRALIZATION

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## PREFACE

The very term decentralization has presented something of an enigma to many persons who have come into contact with it, those at the top management level who have designed the organization structure, and those subordinates who operate within that structure. As is the rule there are reasons for as well as answers to the enigma. This paper has been developed to identify a sound meaning for a decentralized form of management and some of its uses and limitations with particular reference to its application to a large multiplant corporation.

## CHAPTER

The very first thing that I noticed when I stepped out of the car was the heat. It was a sticky, oppressive heat that seemed to wrap around me like a heavy blanket. I had heard that the weather in this part of the country was terrible, but I didn't realize just how bad it would be. The sun was beating down on me, and I could feel my skin starting to burn. I took a deep breath and tried to ignore the heat, but it was impossible. I had never experienced anything like this before, and it was making me feel like I was in a different world. I looked around me and saw that everyone else was also suffering from the heat. The people on the street were drenched in sweat, and the air was thick with humidity. I knew that I had to find a way to cool down, but I didn't know where to go. I was lost, and I was alone. I was in a strange, unfamiliar place, and I was feeling very, very alone.



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## CHAPTER I

### BACKGROUND SITUATION

#### Introduction

Changing opinions and attitudes are often revealed in the increased use of a word. What was once a simple descriptive term may become a watch-word, fraught with emotion and value connotations. Such seems to have been the case with decentralized management. Decentralization has come to mean not just a movement away from centralization but improved industrial organization, efficient operations, and forward-looking management. More often than not it has been used to imply all-out decentralization, without differentiation in its particular application to different management functions. Goals frequently have been so broad as to make each plant completely autonomous, or to make each plant manager act as if he were running his own business, even though it has also been pointed out that decentralization stated in extreme terms is ridiculous and impracticable.

Unfortunately the term "decentralization" is interpreted in a number of different ways, and to avoid confusion it is important to recognize the particular sense in which the word is used. Newman states that:

. . . In connection with administration, centralization (decentralization) may refer to (1) departmentalizing activities, (2) location of actual performance, or (3) the level in the administrative hierarchy at which operating decisions are made.<sup>1</sup>

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<sup>1</sup>William H. Newman, Administrative Action (New York: Prentice-Hall, Inc., 1951), p. 202.





It may be necessary to expand the terse style of Newman. The following thoughts of Owens should guide us in the right direction:

Decentralization in the authority to make decisions represents a middle course between local autonomy and centralization. It provides for central determination of basic policies, objectives, and programs and the vesting of authority in divisional executives for planning and decision making within the scope of the broader policies and objectives. Each divisional executive is given much authority to formulate policies for his division and to make decisions in carrying out company programs. Likewise, executives working under the divisional executives may have considerable freedom in making decisions within the areas of their authority. However, the delegation of authority all the way down the line is not an essential feature of decentralization.<sup>2</sup>

This study is primarily concerned with the real issue implied by the concept of decentralization, that is, who is to decide what is to be done. The organizational level at which operating decisions should be made is a recurring problem for most administrators. Traditionally, many of the early business writers described the average enterprise of their day as a one-man business, run by the owner-manager. The boss, usually a member of an owning family or the representative of a few large stockholders, set the day to day objectives of the company within the wider policy imposed by the board of directors.

But today, even in closely held big companies, problems are no longer that simple. Management ideas that were once considered axiomatic seem more and more inadequate to the complexities of the modern company, which makes many different products and markets them from New York to Hong Kong, or from Chicago to Timbukto. The history of modern corporate management is one of a steadily increasing search for ways of avoiding the bottleneck of one-man rule. The larger the company the more urgent is the problem of decentralization, for an increase in size increases the number and difficulties of

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<sup>2</sup>Richard N. Owens, Introduction to Business Policy (Homewood, Ill.: Richard D. Irwin, Inc., 1954), p. 136.

27 days for recovery to follow the latest stage of disease. The following

It is a very common mistake to think that the only way to get a good education is to go to a good school. In fact, the best education is the one that you get from the people around you. The people you meet in your daily life are the ones who will teach you the most about the world and about yourself. So, if you want to get a good education, you should pay attention to the people you are around and try to learn from them. This is the best way to get a good education and to become a good person.

1911



decisions faced by top management. However, size alone is not the prime consideration, for as Ernest Dale states:

... . it should be noted that the need for decentralization does not necessarily increase in proportion with size. Other factors play an important role, such as complexity of operations, variety of products, and geographic dispersal. Thus a very large company manufacturing a single, simple item might have less to gain by decentralization than a considerably smaller company manufacturing diverse types of complex technical products which it sells in diverse markets.<sup>3</sup>

Decentralization is a subject which needs to be treated not only with respect because it is fundamental to company planning, but with realism because it is of value only insofar as it is practical. The selection of a sound pattern of decentralization of authority is one of the most important aspects of corporate planning. Mooney states the problem in this manner:

The division of a large industrial organization, like the division of an army, may be separated from the central authority. The manager of this division must be "on his own" to a great extent. He must have freedom of action in order to operate efficiently. To a smaller degree, the salesman covering a territory must have some freedom in order to work with the greatest effect. At the same time, the salesman's freedom must coordinate with the plan of the division, and the freedom of the division manager with the general plan.

The problem, therefore, is to organize so that the relative freedom of action required by each shall be so conditioned that all operations will coordinate effectively with the general plans. The line and staff definitions of authority and coordination must be worked out so that at each point in the delegated chain of line authority there is complete coordination with the general plan of the central control and at the same time, the freedom of action requisite for the greatest efficiency.<sup>4</sup>

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<sup>3</sup>Ernest Dale, Planning and Developing the Company Organization Structure (New York: American Management Association, 1952), p. 98.

<sup>4</sup>James D. Mooney, The Principles of Organization (New York and London: Harper & Brothers, Publishers, 1947), p. 174.

[illegible]

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1. The first of these is the fact that the system is not a simple one. It is a complex system, and the results of the analysis are not always clear. The system is not a simple one, and the results of the analysis are not always clear.

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The following information was obtained from the records of the Department of the Interior, Bureau of Land Management, regarding the land owned by the United States in the State of California.

The total area of land owned by the United States in the State of California is approximately 60 million acres. This land is divided into several categories, including National Forests, National Monuments, and other public lands.

The following table shows the distribution of land ownership in California:

Category	Area (Acres)
National Forests	28,000,000
National Monuments	12,000,000
Other Public Lands	20,000,000
Total	60,000,000

This information was obtained from the records of the Department of the Interior, Bureau of Land Management, and is subject to change as new information becomes available.



## The Process of Delegation

Decentralization refers to the nature of a particular company's management. It implies the delegation of responsibility and authority from higher management to subordinates down the line. These are slippery concepts, so it is important to consider their meaning and how they fit into delegation.

### Terminology

In order to avoid confusion, it is wise to define the terms commonly used in describing planned organizations. According to Urwick:

The first task in any such attempt is to define terms. Four concepts are constantly recurring in discussion of organization. They are:

Duties: which are the activities which the individual is required to perform by virtue of his membership in the organization.

Responsibility: which is accountability for the performance of duties.

Power: which is the ability to get things done: that is to say, it is a function of knowledge, skill and personal qualities.

Authority: which is the right to require action of others. It may be

- (a) formal, i.e., conferred by the organisation;
- (b) technical, i.e., implicit in special knowledge or skill; or
- (c) personal, i.e., conferred by seniority or popularity.<sup>5</sup>

In a business organization it is the formal type of authority with which we are concerned, although of course there are degrees of the other two types encountered in varying degrees in any organization. In discussing a business organization, it is unnecessary to make a detailed examination of the sources and limitations of the authority inherent in ownership. Urwick wrote of authority:

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<sup>5</sup>L. Urwick, The Elements of Administration (New York: Harper and Brothers, 1943), p. 41.





It is impossible to conceive of the existence of organisation at all unless some person or persons are in a position "to require action of others." The source of that authority is not significant in the study of organisation.<sup>6</sup>

The old concept of authority extending downward through a corporation's hierarchy has been drastically modified in recent years by the recognition of an upward type of authority. This is the basic authority possessed by all subordinates by virtue of their freedom to obey or disobey orders from superiors in an organization. By his willingness to cooperate, a subordinate grants authority to his superior; if he refuses to obey, his superiors have no authority over him. The uncooperative subordinate can, of course, be fired, but the firing tacitly acknowledges a failure in managerial authority. In any case, the power of upward authority is clearly responsible for most of management's interest in human and industrial relations. During his discussion of the acceptance theory, Chester Barnard says: "There is no principle of executive conduct better established in good organizations than that orders will not be issued that cannot or will not be obeyed."<sup>7</sup>

### Delegation

Authority almost inevitably means delegation. It is obviously impossible for anyone, no matter how gifted, to give every detailed order or to see to every accomplishment personally. This is illustrated by the often repeated tale of the advice given to Moses by his father-in-law, Jethro. At the time Moses was engaged in the struggle to personally accomplish the judging and governing of all the people, Jethro advised Moses to choose able men and delegate to them the ordinary matters. Thus, the scriptures tell us "the hard causes they brought unto Moses, but every small matter they judged themselves."

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<sup>6</sup> Ibid., p. 45.

<sup>7</sup> Chester I. Barnard, The Functions of the Executive (Cambridge, Mass.: Harvard University Press, 1951), p. 167.





In discussing the process of delegation Mooney states:

Delegation means the conferring of a specified authority by a higher authority. In its essence it involves a dual responsibility. The one to whom authority is delegated becomes responsible to the superior for doing the job, but the superior remains responsible for getting the job done. This principle of delegation is the center of all processes in formal organization.<sup>8</sup>

When we examine the process of delegation we find three relationships exist. In the words of Newman they are:

1. The assignment of duties by an executive to his immediate subordinates;
2. The granting of permission (authority) to make commitments, use resources, and take other actions necessary to perform the duties;
3. The creation of an obligation (responsibility) on the part of each subordinate to the executive for the satisfactory performance of the duties.<sup>9</sup>

In a large organization there is a whole series of redelegations down to the point where the job is to be done. Stockholders delegate their rights as owners to management. Management assumes the authority to operate the organization and the responsibility to reply to the stockholders. This delegation of authority and assumption of responsibility are carried down through the whole organization.

### Responsibility

With these three aspects of delegation of authority in mind we can now consider the vital issue of responsibility. There is considerable difference of opinion among writers in the field of administration as to the proper relationship of authority to responsibility. The correct description of this cardinal point is well expressed by Koontz and O'Donnell:

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<sup>8</sup>Mooney, op. cit., p. 17.

<sup>9</sup>Newman, op. cit., p. 166.

[illegible]



Despite the importance of authority, managers tend—perhaps because of its connotations of power—to avoid using the word. Thus, subordinates are spoken of as having responsibility delegated to them, even though it is authority, rather than responsibility, that is delegated. For as will be seen later, the essence of responsibility is obligation, the obligation to use authority to perform duties. Similarly, one hears of managers being assigned responsibility, when what is meant is that the manager is assigned tasks, or duties, or things to do. The semantics of these misused terms may be clarified by noting that managers have authority (power or the right to command) delegated to them, responsibility exacted from them, duties (or tasks) assigned them.

Responsibility is one of the most misunderstood terms in the literature of management. It is common to hear and read about "delegating responsibilities," "holding a person responsible," "discharging responsibility," and "carry out a responsibility." Responsibility is variously used to mean duty, activity, or, as has already been noted, authority.

The Meaning of Responsibility.—Viewed internally with respect to the enterprise, responsibility may be defined as the obligation of a subordinate, to whom a superior has assigned a duty, to perform the service required. The essence of responsibility is, then, obligation. It has no meaning except as it is applied to a person. A building, a machine, or an animal cannot be held responsible.

Responsibility thus arises from the superior-subordinate relationship, from the fact that someone (in the case under discussion, a manager) has the authority to require specified services from another person . . . .<sup>10</sup>

Delegation does not transfer final responsibility. The subordinate, who has been given a job, is responsible for performance, and the superior is responsible for the results. The chain of correlated responsibilities is therefore linked from the chief executive, who has over-all responsibility, down through the organization.

The process of delegation and the principle of responsibility go hand in hand. According to Urwick, "the responsibility of higher authority for the acts of subordinates is absolute."<sup>11</sup>

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<sup>10</sup>Harold Koontz and Cyril O'Donnell, Principles of Management (New York: McGraw-Hill Book Company, Inc., 1955), pp. 48, 54-55.

<sup>11</sup>Urwick, op. cit., p. 50.

This is a very old manuscript. It is written in a very old script, and the ink is very faded. The text is very difficult to read, but it appears to be a list of names or places. The first line is "The first of the names of the" and the last line is "The last of the names of the".

There is a very strong possibility that the information in this document is being disseminated to the public in a manner that is not appropriate. The information in this document is being disseminated to the public in a manner that is not appropriate. The information in this document is being disseminated to the public in a manner that is not appropriate.



### The Paradox

Since responsibility still rests at the level from which the delegation was made, the superior retains some control and direction of a delegated function. The subordinate usually feels he should inform his superior about what he is doing and secure approval for it. Carried too far this dependence upon a superior can nullify the effectiveness of delegation.

At the same time the superior is constantly evaluating the performance of his subordinates. From such evaluation comes promotion, salary increases, or censure. Inevitably, the rewards and punishments of any organization are controlled by those of superior rank. Subordinates may bend their efforts toward pleasing the boss and thus become yes-men. Robert Dubin highlights the paradox of delegation in this way:

In a real sense, then, there is built into the very structure of authority in an organization the conditions making for critical and fault-finding relations with subordinates.

At the same time, there is built into an organization a subservience to superiors arising from the structure of authority.

These two conditions of organizations often give rise to considerable strain on personnel. The intermediate subordinate tends to be driving with respect to his own subordinates and fawning with respect to his superiors; the personnel in the middle levels of administration behave in mutually contradictory ways at the same time.<sup>12</sup>

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<sup>12</sup>Robert Dubin, Human Relations in Administration, The Sociology of Organization (New York: Prentice-Hall, Inc., 1951), p. 273.

It is a well known fact that the United States is a country of immigrants. The first immigrants came from Europe, and later from Asia, Africa, and Latin America. The United States has become a melting pot of different cultures and races. The United States is a country of opportunity, and it is a country where everyone has a chance to succeed. The United States is a country of freedom, and it is a country where everyone has the right to live and work as they see fit. The United States is a country of hope, and it is a country where everyone has a chance to build a better future for themselves and their families. The United States is a country of dreams, and it is a country where everyone has a chance to make their dreams come true.

## CHAPTER II

### FACTORS DETERMINING THE PRACTICAL RANGE OF DECENTRALIZATION

Management's desire for more delegation of decision making is based to a large extent on a dislike for over-centralization and a search for improved structure and administration in increasingly complex industrial organizations. Central decisions that fail to take into account variations in local needs or customs have sometimes been ignored by local management. Recognition of this and other limitations undoubtedly has been an important factor in the recent interest in decentralization, since the move away from centralization has been initiated from the top rather than from lower echelons seeking more responsibility.

There are no simple formulae to apply to the questions of decentralization. A high degree of centralization may be most effective in a small concern, whereas it may result in serious ineffectiveness in a large corporation. As Henri Fayol pointed out:

Centralization, like division of labor, is one of the laws of nature. . . . Centralization is not a system of administration, which is good or bad in itself, and can be adopted or discarded at will; it is always present to some extent, so that the question of centralization or decentralization is simply one of degree--The problem is to find out what is the best degree of centralization for a given undertaking.<sup>13</sup>

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<sup>13</sup>Henri Fayol, Industrial and General Administration (New York: Pitman Publishing Corp., 1949), p. 27.



## CHAPTER 12

### THEORY OF THE EARTH AND ITS HISTORY

#### 1. INTRODUCTION

The theory of the earth and its history is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its features. The theory of the earth and its history is based on the study of the earth's rocks and fossils, and on the principles of geology. It is a science which is constantly developing, as new discoveries are made and new theories are proposed. The theory of the earth and its history is a branch of geology which deals with the origin and development of the earth and its various parts. It is a science which seeks to explain the processes which have shaped the earth and its features. The theory of the earth and its history is based on the study of the earth's rocks and fossils, and on the principles of geology. It is a science which is constantly developing, as new discoveries are made and new theories are proposed.

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Many variable factors determine the practical extent of how much decentralization of authority should be employed. The company that seeks to delegate responsibility and authority from higher management to subordinates down the line must be alert to these factors and their changing impact upon one another. It is proposed to discuss only the most important, which are:

1. Size, number, and location of plants.
2. Nature of the company's business.
3. Economic trends.
4. Political trends.
5. The philosophy of management.
6. Personality of the chief executive.
7. Type of management function.

#### Size, Number, and Location of Plants

Decentralization is most commonly practiced where a company's plants and sales activities are widely scattered geographically, or where the company has a number of different products which have dissimilar sales and manufacturing problems. However, where the nature of operations and work load permit it is sometimes possible to practice decentralization on a limited scale within a single plant or office.

The larger the size of the company, and the more numerous the decisions to be made, the longer it will take to make decisions at the top echelon where they accumulate. The managerial gap between top executive leadership and the level of operations increases. Top management can acquire less and less by personal direction and supervision—the information and understanding that are required for sound, detailed decisions covering problems on lower levels. Decentralization reduces the size of the decision-making unit to the lowest competent level, which means as close as possible to the action

1. The first of these is the fact that the Commission has not yet received any information from the Government of the United States regarding the results of its investigation of the activities of the American Friends of the Soviet Union (AFSU) in the United States. The Commission is deeply concerned by the fact that the AFSSU has been active in the United States for many years and has been able to raise large sums of money for the Soviet Union. The Commission is also concerned by the fact that the AFSSU has been able to obtain the services of prominent American citizens, including members of Congress, to act as its spokesmen. The Commission is therefore requesting the Government of the United States to provide the Commission with the results of its investigation of the AFSSU as soon as possible.

It is a very common mistake to suppose that the only way to get the best results from a system of management is to have a very large number of people. This is not true. The best results are often obtained from a small number of people who are well trained and who are given the opportunity to use their initiative.



level. Certain advantages may accrue to the company that follows this procedure. They are, in the words of Dale:

a. Executives will be nearer to the point of decision-making. Delays of decisions, caused by the necessity of checking with headquarters and/or top officials, are reduced by managerial decentralization. Since people on the spot know usually more about the factors involved in the decisions than those further removed (by physical distance and authority), and since speedy decisions may often be essential (competitors may move in otherwise), such a delegation of decision-making is advantageous. It also saves the considerable expenditure of time and money involved in communication and consultation before the decision is made. These savings may increase as the geographical dispersion, and the volume of company activities increases . . . .

b. Efficiency may be increased because there may be a better utilization of the time and ability of executives, some of whom may formerly have shunned responsibility as much as possible, "going to headquarters" automatically, as soon as any problems came up.

c. The quality of decisions is likely to improve as their magnitude and complexity are reduced, and as major executives concentrate on the most important decisions. As General Eisenhower points out "full concentration on the chief problem at hand makes it possible to solve it; the details should be handled lower down the line. I never fired a man for delegating responsibility, but I did fire men who held the reins too tight and irritated others by their preoccupation with minutiae."

d. The amount and expense of paperwork by headquarters staff may be considerably reduced by delegating decision-making. For example, in a medium-sized company the regional managers formerly had to check most of their major decisions with headquarters. It took from 10 to 30 days before a decision was obtained. The transfer of a clerk from one division of regional headquarters to another required eight signatures. Now only three are needed—all from the regional headquarters. As an over-all result, headquarters staffs have been cut considerably.

e. The expense of coordination may be reduced because of the greater autonomy of decision-making. This requires the establishment of a clear-cut framework of general company policy within which the subsidiary units can make their decisions. For example, at Sears, Roebuck and Co. the establishment of such a policy has resulted in a considerable reduction of the coordinating staff, with greater freedom of action of the individual stores. Sears, Roebuck has emphasized adaptability and ability to carry out simple procedures worked out at headquarters. In this way risks are considerably reduced. A store manager cannot go far wrong on merchandise selection, for example, because this is done for the most part by





top experts at the head office. All he has to do is a good selling job, for which he has the most incentive.<sup>14</sup>

By the same token, a reduction in the size of the decision-making unit may create certain disadvantages. They are:

1. A lack of uniformity of decisions may exist.--It is obvious that if decisions are being made on the lowest possible level, they are to be made by different people who will be at different locations. The elimination of a possible impact on one plant of decisions made in another requires coordination and control in a firm whose plants are decentralized. In meeting the need for coordination, top management has relied upon various means of communication, but has placed its greatest reliance upon informal methods with particular emphasis on personal contact and consultation with higher authority.
2. Inadequate use of staff personnel.--Perhaps the most important aspect of the organizational structure affecting the level of decision-making is the creation of staff experts at high levels in both the headquarters and the plant. With decentralization, men in the field may feel they no longer need to utilize headquarters' advice. They may ignore advice they consider unwarranted. The headquarters staff may be only partly utilized and its effectiveness will be impaired. Helen Baker, associate director of Princeton's Industrial Relations Section, states:

As the situation exists, the divisional industrial relations managers do not always refer problems to the corporate staff which they should. In some cases the corporate staff hears only indirectly about action, which the

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<sup>14</sup>Dale, op. cit., pp. 111-112.





corporation staff considers poor industrial relations, taken by plant or divisional industrial relations personnel.<sup>15</sup>

3. Lack of trained personnel.--Decentralization may be expensive and ineffective when a wide geographical dispersion of activities requires remote control. This is particularly true when personnel with limited ability must operate without benefit of direct personal supervision. Great care should be exercised in the selection, training and development of personnel. Decentralized operations require subordinate personnel to understand clearly and completely the functions for which they are responsible, and their requirements. The gradual allocation of additional responsibilities and periodic appraisals on performance are vital steps for success.

#### Nature of the Company's Business

The history of many big companies has been one of uncontrolled growth to the point where the muscles seem to lose contact with the central nervous system. The conditions which must be taken into account to ensure the survival and prosperity of a particular organization have become increasingly complex. Even if one is inclined to join in the modern emphasis on decentralization, there still remain a number of factors peculiar to the individual company which must be considered in planning the pattern of decentralization.

The rate of growth.--The chief executive who is faced with heavy demands on his time is often forced to delegate many of his decisions. The activities of the large company comprising everything from the efficiency of current production and distribution to complex calculations about levels of production, prices and wages, are clearly too vast and intricate for one man to keep in his mind. In the process of adjusting the duties of each executive to a reasonable workload, the degree of decentralization is of prime importance.

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<sup>15</sup>Helen Baker and Robert R. France, Centralization and Decentralization in Industrial Relations (Princeton, N.J.: Industrial Relations Section Princeton University, 1954), p. 40.

THE HISTORY OF THE UNITED STATES OF AMERICA  
FROM 1763 TO 1876  
BY CHARLES A. BEAMAN  
NEW YORK: THE CENTURY CO. 1876



Geographical dispersion.---"If a company owns several plants located in different parts of the country, decentralization may be both feasible and desirable."<sup>16</sup> Such dispersion of some of the plants may be required because of the need for proximity to sources of raw materials, or proximity to labor and customers. Living conditions for employees are often better in small communities, whereas large centralized operations tend to make huge communities with their resultant living problems.

Diversification.---A high degree of decentralization is justified where conditions of production vary so much that important decisions must be made at frequent intervals, as in coal mining and building. Again, if each plant makes a different product, decentralization would be more economical. But as Owens says:

More centralization is required if all plants make similar products, as glass containers, shirts, shoes, or tin cans, because production schedules must be centrally controlled, and planned production must be allocated to the different units. Decentralization is also more easily effected in a company that is organized on territorial lines, such as a chain of retail stores.<sup>17</sup>

The General Electric Company practices decentralization to a high degree because of the nature of its products. Ralph J. Cordiner, who became president of the company in 1950, states that:

One brave soul ventured the estimate that General Electric manufactures 200,000 separate products, and it is a statistical fact that the Company lists more than 3 million catalog numbers to differentiate various sizes, shapes, and ratings. As far as bookkeeping is concerned, separate operating records are kept today on about 350 lines of products, and there are nearly 100 product-manufacturing operating departments [on the average, each one of the departments is equivalent to a \$30 to \$40 million company], as well as numerous distributing and selling departments.<sup>18</sup>

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<sup>16</sup>Owens, op. cit., p. 138.

<sup>17</sup>Ibid.

<sup>18</sup>Ralph J. Cordiner, New Frontiers For Professional Managers (New York: McGraw-Hill Book Co., Inc., 1956), p. 32.

There is a very high degree of correlation between the two series. The correlation coefficient is 0.98. This indicates that the two series are very closely related. The correlation coefficient is a measure of the strength and direction of the relationship between two variables. A correlation coefficient of 0.98 indicates a very strong positive correlation. This means that as one variable increases, the other variable also tends to increase. The correlation coefficient is a useful tool for analyzing the relationship between two variables. It can help to identify trends and patterns in the data. It can also be used to make predictions about the future. For example, if the correlation coefficient is 0.98, then we can predict that if one variable increases by a certain amount, the other variable will also increase by a similar amount. This is a very powerful tool for data analysis. It can be used in a wide variety of fields, including economics, psychology, and sociology. It is a very important tool for understanding the world around us.

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The above information was obtained from the records of the Federal Bureau of Investigation, Department of Justice, Washington, D.C., and is being furnished to you for your information.

Sincerely,  
Special Agent in Charge



## Economic Trends

Accompanying the phenomenal growth of modern industry in this country has been a rise in the living standards of all classes. In most cases large-scale production has led to both increased wages and lower unit costs. The resulting increased consumer demand has required higher production quotas, thus leading to an ever-expanding circle of supply and demand. This expansion of activity tends to lead to decentralization. Dale states:

a. Expansion of business activity. The expansion of company activities, because of the general upward movement of the business cycle or the company's own long-term growth, tends to lead to decentralization. For the rise in activity increases the number of decisions with no direct effect on the decision-making capacity of top management. Paralleling company expansion, there tends to be continuing delegation of the less important decisions.

b. Decline of competition. There is a tendency to decentralize as the degree of competition is reduced and the company dominates particular markets, for this is usually accompanied by an increase in company size. Further, the increase in company security and prosperity may make "experimentation" more feasible--and decentralization is often regarded in just that light.

The reverse tendencies may be noted in times of business decline and as competition becomes sharper. Top executives tend to feel that their personal influence and experience are especially needed in such emergencies. As a result, centralized controls are imposed to obtain cost reductions, uniform standards, improved methods of operation, fewer mistakes, checks on expenditure and follow-ups on execution. Staff specialist positions created to provide staff services to local branches are often cut in times of depression. Thus many organizations revert gradually to centralization in periods of retrenchment. Examples can be cited of many companies that alternately centralize and decentralize with depression and prosperity.<sup>19</sup>

## Political Trends

"Curse of Bigness."--To many persons bigness itself is unattractive and there can be no doubt that size does create problems. In the policy of decentralization, the large corporation has a means to overcome the functional disadvantages of bigness. Thus the trend in corporate policy to avoid heavy

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<sup>19</sup>Dale, op. cit., p. 115.

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APPENDIX

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concentration in one particular geographical area. This policy was motivated by the fear of the political repercussions when local plants were forced to make heavy employment cutbacks. Dale cites the General Electric Company which "limits its employment in any one community to a certain percentage of the employable population."<sup>20</sup>

Another motive in escaping bigness is to avoid antitrust legislature and labor relations problems. With the rise of organized labor and its political contacts with governmental agencies, managements' problems in this field have grown. The expansion of business concerns into units so large as to minimize the personal touch with the worker is another cause of friction. In trying to solve this problem, many companies split up and move parts of their large plants to other locations. Hodges says:

The Sylvania company decentralized production in a number of small scattered plants, all but five of which have fewer than one thousand employees. The smallest plant employs 230, and the largest about 2900. The improvements reported are more flexibility in operations, better employee morale and community relations, and superior executive development because of more independence of action. In the labor field, managers of the small plants are closer to the workers than was possible under the former centralized operations and management.<sup>21</sup>

Fear of war.---Fear of enemy attack is leading to plant dispersal, largely in heavy goods production, but also in the dispersal of top management personnel. For the most part, plant dispersal is a matter of corporate policy. However, the possibility of destruction by bombing is a matter of grave concern for reasons of national defense. Owens says:

Dispersal of facilities of production affects public policy in many ways. The problems have been greatly intensified as a result of the development of atomic bombs and guided missiles,

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<sup>20</sup>Ibid.

<sup>21</sup>Henry C. Hodges, Management (Boston, Mass.: Houghton Mifflin Company, 1956), p. 55.

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although some aspects of the problem go back many years. Military strategy has always had as one objective the destruction of the enemy's source of supplies or cutting the lines of communication between the armed forces and the areas from which he drew his food, water, and munitions. The more production was concentrated within a limited area, the more easily was the objective achieved. . . .

. . . The atomic bomb was perfected too late in World War II to cause serious consideration of problems of dispersal, although the threat of enemy air raids affected much of the governmental planning. The hope that an era of peace might follow the termination of hostilities and the establishment of the United Nations caused a minimum of attention to be given to dispersal. The continuing "cold war" after 1946 and the explosion of the first atomic bomb by the Russians in 1949 required that the government review its policies on plant location. In August, 1951, President Truman issued a statement entitled "An Industrial Dispersal Policy" which contained recommendations concerning the location of new plants and possible moving of existing plants. . . .

. . . According to recommended plans of dispersal, corporations would be encouraged or required to locate their new plants in remote areas and to move existing plants away from the highly congested industrial centers. Recommended locations would be the smaller communities, particularly in the South, Middle West, or Southwest. This plan, it is hoped, would provide sources of supply to meet military and civilian needs even though some industrial centers might be destroyed. Channels of communication would not be overloaded. If hostilities are avoided, dispersal would have the advantage of utilizing labor in different sections of the country, particularly if plants can be located in certain areas previously designated as being depressed, such as communities seriously affected by the shift from coal to oil and gas for heating and to diesel engines or electric motors for power. Other depressed areas have been the towns and cities affected by shifts in shoe, textile, and lumber industries. Social gains would be achieved through the lessened loss of human life, the smaller destruction of property, and possibly the simpler modes of living in smaller communities.

. . . Since the government is an important purchaser from private industry, it can make dispersal a requirement in letting contracts for the purchase of military and other supplies and equipment. If a company would be required to build new facilities to fill requirements for production, the government may refuse to give a contract that would cause the contractor to build or enlarge facilities in an area already regarded as congested.<sup>22</sup>

### Philosophy of Management

Apart from these very real problems, there always remains the philosophy of top management which must be considered. Over the years an increasing number of companies have adopted decentralization of decision-making as

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<sup>22</sup>Richard D. Owens, Business Management and Public Policy (Homewood, Ill.: Richard D. Irwin, Inc., 1958), pp. 218-220.





a basic method of organization. These companies include very large units like General Motors, General Electric, and others, and medium-large companies such as Sylvania Electric Products, and American Brake Shoe Company. The philosophy of these financially successful companies has done much to convince other executives that decentralization may assist the economic position of their companies. Typical of this thinking is the statement of General Robert E. Wood, Chairman of the Board of Sears, Roebuck and Company:

We complain about government in business, we stress the advantages of the free enterprise system, we complain about the totalitarian state, but in our industrial organization, in our striving for efficiency, we have created more or less of a totalitarian organization in industry--particularly in large industry. The problem of retaining efficiency and discipline in these large organizations and yet allowing our people to express themselves, to exercise initiative and to have some voice in the affairs of the organization is the greatest problem for large industrial organizations to solve.<sup>23</sup>

Most big company executives are now aware that high wages and benefits, important as they are, do not alone stimulate cooperation. The new concept is to treat employees as separate, human personalities, and to organize them into small compact teams in which they can feel creatively at home. This is a radical departure from the "scientific management" concept of Frederick Taylor. Such a line of thought is corroborated by the words of John Chamberlain:

The big break from the notion that workers are machines came when Elton Mayo discovered that the efficiency of men was bound up not so much with mechanical simplicity of motion as with their feeling that they were embarked on team projects in pleasant association with other men. Mayo showed by experiment that men worked more effectively when they had a hand in following something through from beginning to end.

The Mayo studies had nothing to do with divisionalization as such. But if the smaller team was more efficient than fragmented,

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<sup>23</sup>Quoted in Boris Emmet and John E. Jueck, Catalogues and Counters—A History of Sears, Roebuck and Company (Chicago, Ill.: University of Chicago Press, 1950), p. 371.

It is not only the fact that the Government has been able to maintain its position in the face of the most serious economic crisis since the war, but also the fact that it has been able to do so without resorting to the usual methods of borrowing or printing money. The Government has been able to do this because of the fact that it has been able to maintain the confidence of the public in its ability to do so.

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isolated men within a given factory, it was only logical to suppose that a big company would do better if it were split into divisions according to region, product or customer-appeal.<sup>24</sup>

This new philosophy of top management believes decentralization affords a better opportunity for all-around executive development because the small decision-making unit provides training for leadership and initiative. Multiple Management, Reaching Out in Management and Group Management all stem from the new belief in executive development through participation.

### Personality of the Chief Executive

Hodges says that "the organization structure must be built around distinct and dissimilar activities, and not around individuals."<sup>25</sup> Many other organization authorities deny that personality should be taken into account in establishing the structure of the enterprise. It would be a grave error not to pay close attention to the engineering aspects of organization and its principles. But it would be an equally grave error to imagine that the personality of the chief executive is not a prime factor in determining the degree of decentralization. The following comment of Alvin Brown is worthy of note:

Organization is often more honored on paper than in practice. On paper, where the problem of organization has been deliberately addressed, it may have been dealt with according to principles; yet when the document is complete it is all too likely to pass from consciousness, leaving the daily work of administration unpoliced by its prudent requirements and limitations. It becomes doctrine professed but ignored. . . . The clue to actual organization must be found in the action of its members.<sup>26</sup>

Normally, the chief executive is the dominating personality in any enterprise; therefore, the role he plays will have a definite bearing on the

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<sup>24</sup> John Chamberlain, "Efficient Business," Wall Street Journal, January 7, 1957.

<sup>25</sup> Hodges, op. cit., p. 122.

<sup>26</sup> Alvin Brown, Organization--A Formulation of Principle (New York: Hibbert Printing Company, 1945), p. 60.

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pattern of decentralization. What he does and the decisions he makes depend in part upon the kind of leader he is and the type of organization within which he operates. Alford and Beatty classify leaders into six types:

1. Intellectual, who gains followers through his recognized ability in specialized functional fields.
2. Institutional, who leads because of the prestige of his position (also referred to as "positional").
3. Democratic, who obtains follower loyalty by catering to the majority desires of his group.
4. Autocratic, who leads through domination and drive.
5. Persuasive, who engenders cooperation through a likeable personality.
6. Creative, who inspires others with ideas, and stimulates them to emulation.<sup>27</sup>

Probably no leader falls exclusively into any one category. However, the combination of persuasive and democratic leadership characteristics would rank high in those corporations practicing decentralization.

#### Type of Management Function

Finally, the degree of decentralization depends on the nature of the management function concerned. Decentralization will not apply to all functions in the same degree. Sometimes the need for speedy local decisions will be a dominant consideration, and at other times the need for close coordination will limit the degree of decentralization possible. It is difficult to generalize on this aspect because the nature and importance of management functions and of their relationship to one another vary from company to company. Unfortunately, we cannot attempt to analyze in so short a space the degree of decentralization as it pertains to all functions of management. We must confine ourselves to certain key functions, as follows:

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<sup>27</sup>L. P. Alford and H. R. Beatty, Principles of Industrial Management (Rev. ed. New York: The Ronald Press Company, 1951), pp. 111-114.



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## Production

Usually the production function is the first to be decentralized and the degree of delegation increases as the scale of production widens. Many of the large corporations divide their operations into product divisions. Coordination is maintained through the operating budget, through controls over production results and through the activities of a vice president in charge of manufacturing and/or committee management. Herrymon Maurer cites the duPont Company in this manner:

. . . Du Pont, therefore, began forecasting not only sales and profits but also working capital needs, cash requirements, and capital expenditures. In effect, it began determining ahead of time what the balance sheet and the income account should be for the year to come and for a number of subsequent years. To emphasize the responsibility of the department and division executives, duPont worked out a bonus system based on performance. To check performance, the top command was turned into a board of review and other executives into a staff of counselors.<sup>28</sup>

## Finance

Authority in financial policies is seldom delegated below the top echelons of a corporation. This seems to be the rule even where a general policy of decentralization exists. For example, when there are geographically scattered plants, the division controller is usually under the direct supervision of the corporate controller at headquarters. The reasons for centralized control of financial policies are summarized by Dale:

. . . Because the fundamental objective of almost every company is financial, a single decision at the financial policy-making level can spell the difference between survival and failure. For this reason, and because top management regularly uses various types of financial reports to check on the effectiveness of its operations, the finance function is accorded a high place within the company, and only rarely are any but the routine aspects of the function decentralized. In view of the high degree of centralization of

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<sup>28</sup> Herrymon Maurer, Great Enterprise—Growth and Behavior of the Big Corporation (New York: The Macmillan Company, 1955), pp. 228-229.



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the finance function, even in companies which are otherwise widely decentralized, the question arises as to how much leeway is afforded local managers in making capital expenditures. In many companies, capital expenditure schedules are laid down in central policy statements, specifying the sums which different members of the management hierarchy are permitted to spend without requesting special permission. The capital expenditures vary to some extent in different companies, but in general they are limited to relatively small amounts.

Budgeting, as might be expected, is almost always centrally controlled. The various divisions make up budgets at regular intervals, for review and approval by top management. Often the detailed items of expenditure will have to be approved individually once more by the top officials.

Decisions regarding the raising of capital and sources of funds as well as the payment of dividends are usually made by the Board of Directors or the Executive or Finance Committee.<sup>29</sup>

### Industrial Relations

Plant managers may be granted wide latitude on hiring, firing, and recreation programs. But it should be noted that even in highly decentralized companies major decisions of the industrial relations function tend to be highly centralized. Helen Baker lists the following aims and conditions that require centralization of this function:

- (1) To insure that industrial matters receive the attention they should have throughout a corporation, the center of authority must be near the top. Important decisions should be made by executives responsible for the corporation as a whole, and the central industrial relations staff should be in a position to advise top management as well as its operating divisions.
- (2) Uniformity of industrial relations policies and their application is needed to give employees a sense of being treated fairly. When provisions of a multiplant labor contract are involved, uniform interpretation is essential. Even when a company has contracts with several unions, or none, uniformity is desirable except for instances in which local custom may be of controlling interest to the employees of a given plant.
- (3) Aside from the question of uniformity, central clearance of industrial relations decisions made by local managers is essential to avoid unexpected repercussions in other plants. Decisions in one division often have an impact on the same or even an unrelated

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<sup>29</sup>Dale, op. cit., pp. 190-191.

The Commission has been established to study the various aspects of the problem of the Indian population in the United States. It is composed of representatives of the various departments and agencies of the Government, and of representatives of the Indian community. The Commission is to report to the President on or before the end of the year 1961.

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activity in another division because of a combination of circumstances that is visible only to someone acquainted with both units of operation.

- (4) Sudden changes in labor relations require quick decisions by management. Greater flexibility is insured when decisions are made by a few officers who have frequent informal contacts.
- (5) Labor legislation and government intervention in labor relations require central administration or control to insure maintenance of legal standards and adequate legal counsel throughout the corporation.
- (6) As a matter of economy, certain special staff services (such as legal and actuarial advice) are located only in the head office.
- (7) Plant managers and supervisors find it more of a "mental strain" to make decisions in labor and personnel relations than in technical matters. Even when nominally responsible for industrial relations in his unit of operations, the plant manager or supervisor likes to be able to "clear" with the industrial relations manager or a higher line executive before making any but the most minor decisions.<sup>30</sup>

### Marketing

Delegation of decision-making in sales policy is more widespread than in any other business function. Selling must usually be done in the field and customers are often scattered. Therefore, the sales approach cannot be rigidly prescribed by corporate headquarters. Top management may maintain close coordination through a vice president in charge of sales who formulates general selling policies, through a central market research department, and by centralization of advertising at headquarters.

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<sup>30</sup> Baker, op. cit., pp. 32-33.



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Conclusion

The government is committed to maintaining a high level of security in the country and to ensuring that the government is able to meet its obligations to the people.

Yours faithfully,  
[Signature]

## CHAPTER III

### CHARACTERISTICS OF THE GENERAL ELECTRIC COMPANY

#### Explosive Growth

The larger the business, the more diversified its operations, the more urgent is the problem of decentralization. The difficulties begin when one is determining how far to decentralize, how to set up the organization and how to operate it when it is set up. In the preceding chapter we applied various factors in order to determine how far to decentralize. Attention will next be given to the second major difficulty—how to set up the organization.

One of the impulses that led big companies to look to the efficiency of their systems of organization was their participation in World War II. To win the war it was essential to produce the most goods in the least time under the many pressures that existed. Without the war, the same kind of growth would have occurred but perhaps more slowly, since large companies were becoming larger in terms of number of plants, sales outlets, executives and employees. Furthermore, they were diversifying the number of their products to insure future growth. Organizational efficiency was needed to cope with the problems caused by the rapid growth.

A great postwar reorganization occurred at the General Electric Company, whose need for a new plan of organization is best explained by Ralph J. Cordiner, chief architect of the reorganization:





Up until 1939, the Company was able to operate efficiently under a highly centralized form of management. During World War II, however, General Electric began a period of almost explosive growth which caused its managers to question whether it might not be necessary to evolve new techniques of organizing and managing the Company.

From 1920 to 1939, the Company's sales volume had risen slowly from \$200 million to \$342 million a year. By 1943, under the pressure of war production, it rose suddenly to \$1,370,000,000 a year--over a four-fold increase in four years. Postwar experience and forecasts indicated that this was only the beginning of an opportunity for continuing, rapid growth in serving the nation's demand for electrical and related products. The Company produced over \$3 billion worth of goods and services last year; and if we do the job we should do of satisfying customers, this figure may well rise--as the Company has publicly stated many times--to \$6 billion early in the 1960's.

It is obvious that a Company with such growth characteristics, and operating on such a scale, requires a different managerial approach than the Company of the 1920's and '30's. This was, of course, recognized by Gerard Swope, who served as president during those decades when the foundations for future growth were carefully laid, and by Charles Wilson, the Company's president during the hectic, war-torn '40's. Under their leadership, I was asked to study the new problems of organizing and managing such a rapidly growing enterprise.

From the beginning of the study, it was apparent that the Company was going to require increasingly better planning, greater flexibility, and faster, more informed decisions than was possible under the highly centralized organization structure, which was suited for earlier and different conditions. Unless we could put the responsibility and authority for decision making closer in each case to the scene of the problem, where complete understanding and prompt action are possible, the Company would not be able to compete with the hundreds of nimble competitors who were, as they say, able to turn on a dime.<sup>31</sup>

### A Solution

Many people would solve the problems of management of large enterprises by reducing and dividing each into several small concerns which could be more easily managed. This would be self-defeating because it would lose to the public and to the enterprise many advantages inherent in large companies. Mr. Cordiner states these advantages to be:

. . . the ability to serve as a source of major innovations in the nation's economic life, creating new products, new industries, new employment, and new outlets for smaller businesses;

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<sup>31</sup>Cordiner, op. cit., pp. 44-46.

It is well known that the Company has been in operation since 1881, and has a long and successful record of service. It is now a public utility, and its operations are subject to the supervision of the Public Service Commission. The Commission has the honor to acknowledge the service of the Company and to express its appreciation for the same.

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the ability to energize the flow of mass production and mass distribution; and the ability to provide a broad range of advanced technical capacity in order to produce the more complex products and systems of our times.<sup>32</sup>

In order to maintain the advantages of the large enterprise, General Electric undertook decentralization not only of products, geographic location and functions, but in addition the actual authority for making decisions. The philosophy of General Electric further envisions that decentralization embraces the following ten elements:

1. Decentralization places authority to make decisions at points as near as possible to where actions take place.
2. Decentralization is likely to get best over-all results by getting greatest and most directly applicable knowledge and most timely understanding actually into play on the greatest number of decisions.
3. Decentralization will work if real authority is delegated; and not if details then have to be reported, or, worse yet, if they have to be "checked" first.
4. Decentralization requires confidence that associates in decentralized positions will have the capacity to make sound decisions in the majority of cases; and such confidence starts at the executive level. Unless the President and all the other Officers have a deep personal conviction and an active desire to decentralize full decision-making responsibility and authority, actual decentralization will never take place. The Officers must set an example in the art of full delegation.
5. Decentralization requires understanding that the main role of staff or services is the rendering of assistance and advice to line operators through a relatively few experienced people, so that those making decisions can themselves make them correctly.
6. Decentralization requires realization that the natural aggregate of many individually sound decisions will be better for the business and for the public than centrally planned and controlled decisions.
7. Decentralization rests on the need to have general business objectives, organization structure, relationships, policies, and measurements known, understood, and followed; but realizing that definition of policies does not necessarily mean uniformity of methods of executing such policies in decentralized operations.

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<sup>32</sup>Ibid., p. 47.



The United States has the right to demand that the  
British Government should do its duty to prevent a  
further extension of the British Empire in the  
Middle East and Africa at the present time.

In order to secure the advantage of the British Empire,  
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The following are the reasons:

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8. Decentralization can be achieved only when higher executives realize that authority genuinely delegated to lower echelons cannot, in fact, also be retained by them. We have, today, Officers and Managers who still believe in decentralization down to themselves and no further. By paying lip-service to decentralization, but actually reviewing detailed work and decisions and continually "second-guessing" their associates, such Officers keep their organization in confusion and prevent the growth of self-reliant men.

9. Decentralization will work only if responsibility commensurate with decision-making authority is truly accepted and exercised at all levels.

10. Decentralization requires personnel policies based on measured performance, enforced standards, rewards for good performance, and removal for incapacity or poor performance.<sup>33</sup>

### The Organization

Under this philosophy of genuine decentralization a new organization structure was devised. It is essentially a three-part structure which carefully distinguishes between the following distinct components:

#### Operating Management

General Managers and Managers who are responsible and accountable for the successful conduct of their respective decentralized businesses within the framework of the company's over-all policies and program. They carry out over-all company objectives, policies, plans and programs and themselves formulate and determine the goals and activities of their respective Operating Components.

#### Service Management

Persons skilled in specialist functions and subfunctions who are ready and able to render expert technical service within the limits of their respective functions on a company-wide basis, as to all product divisions and departments. These men thus assist in the formulation of over-all objectives, policies, plans and programs, and provide specialized functional service and recommendations as to how they are carried out.

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<sup>33</sup>Ibid., pp. 50-52.





## Executive Management

A President, who is the Chief Executive Officer, and any senior officer who assists him, determines the Company's over-all objectives, leadership, planning, organizing and performance appraisals.

### How Does It Work?

## Operating

In the operating area various related departments are grouped into a division headed by a general manager who considers matters common to the separate entities. These divisions in turn are organized into groups which are headed by executive vice-presidents.

As the philosophy has indicated, the division general managers are chief executives of decentralized product operating businesses. To these men are delegated the management authority and accountability for operations which means deciding and taking action. They have full authority to manage their respective businesses only to the extent that such authority is specifically abridged in writing, either by scope of authority limitations, or by over-all or functional company policies.

Under this concept the product divisions have their own product responsibility, their own markets, and their own natural autonomy, so that headquarters can correct unsatisfactory conditions by replacing the persons managing such a business but not by taking away their authority.

Mr. Cordiner states:

To demonstrate that the responsibility, authority, and accountability of these Operating Departments is real, not window-dressing, consider their pricing authority. The price of a product can be raised or lowered by the managers of the Department producing it, with only voluntary responsibility on their part to give sensible consideration to the impact of such price changes on other Company products. . . .

As further evidence of the freedom provided by decentralization to the Operating Department, consider the fact that the operating budget of the General Electric Company is not a





document prepared by the Executive Offices in New York. It is an addition of the budgets prepared by the Operating Department General Managers, with the concurrence of the Division General Managers and Group Executives. These budgets include planned sales volume, product development plans, expenditures for plant and equipment, market targets, turnover of investment, net earnings, projected organization structure, and other related items.

.....  
 Since they are better informed, they are authorized to make whatever prudent commitments they should on materials, and we have recently increased the approval authority of the Operating Department General Managers over capital expenditures so that they can, by their own decision, make commitments up to \$500,000.<sup>34</sup>

The responsibility of the General Manager of an operating business under such a concept of management is inevitably broad and complex. He needs to be a thinker and to motivate others to act.

### Services

In the service area, specialists in research, manufacturing, marketing, accounting, and so on, are grouped into services divisions. It is the task of the services division manager to plan, organize, measure and integrate the work, people, and resources of his own functional component, as well as coordinating it as a component of the over-all organization. Cordiner says, "These services people have no authority whatsoever over the operating components, except the authority of knowledge."<sup>35</sup> Dictation is forbidden.

Services divisions provide functional services to the president and the company as a whole, as required, and also as requested by operators at all levels and to other service divisions. Furthermore, they have the duty to appraise and review, in behalf of headquarters, the effectiveness, economy, and efficiency of functional performance in their respective functional fields, and to make constructive recommendations through channels. Within General Electric's organization structure the functional services officers play an important role in research and long-range planning.

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<sup>34</sup> Ibid., pp. 58-61

<sup>35</sup> Ibid., p. 64.





Thus, the emphasis in Service functional work is on the future; anticipating future opportunities and future problems, so that when they arrive General Electric will have the personnel and knowledge ready to meet them unsurprised.<sup>36</sup>

### Executives

The "Executive Office" of General Electric is best explained by Mr. Cordiner when he says:

Leadership and long-range planning for the Company as a whole constitute the Executive classification of work in the Company structure. To understand this Executive aspect of the General Electric organization, it is important to understand two unusual organizational devices: The President's Office and The Executive Office.

The President's Office is a group of Executives who share the work of the President. In addition to the President, it includes the Chairman of the Board, and five Executive Vice Presidents. The Chairman of the Board, in addition to the duties assigned him directly by the Board, represents the President in such areas as financial affairs, public and governmental liaison, and international matters, and each of the Executive Vice Presidents represents the President in relationships with a specific group of Operating Divisions. This unique organizational device was created in recognition of the fact that no one man would have the time and knowledge required to provide effective Executive leadership for the variety of businesses in a Company as large and as diversified as General Electric. Thus each Executive Vice President serves as the President in a defined Operating area, without in any sense relieving the President of the ultimate responsibility placed upon him by the Board of Directors for the success of the enterprise as a whole.

The Executive Vice Presidents, in General Electric, are true Executives. That is, they have been freed of Operating responsibility and administrative details so that they can devote their time to long-range planning, appraisal of current performance, bringing divisional objectives and plans into a working pattern with over-all Company needs, and making sure of the needed continuity of competent managerial and other personnel in the decentralized businesses.<sup>37</sup>

### Essential Features

It is desirable to amplify how this philosophy hinges closely on the concept that the "manager," and especially the chief executive, must deliberately free himself of detail and devote more of his time to planning

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<sup>36</sup> Ibid., p. 66.

<sup>37</sup> Ibid., pp. 67-68.



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and organizing, as distinct from operations. Mr. Cordiner visualizes management itself as a distinct kind of work. Under his philosophy a manager is one who is skilled in carrying responsibility for the operating results of others, and who has authority coextensive with that responsibility.

The manager makes progress through his ability to supply leadership to others rather than by some personal technical contribution. He is essentially a long-range planner, an organizer and a teacher, rather than a "doer." The task of such a manager is replete with problems of human relations as distinct from that of the specialist who is an expert in some technical field.

General Electric has solved the practical problem of building a large organization without destroying the quality and strength of well-integrated work units. The method followed in implementing this policy was through decentralization of product decisions; however, long-range planning and control are centralized. This concept reconciles the company's need for coordinated action with the legitimate aspirations of individuals.

In discussing the concept of centralized planning and control, Raymond Villers has introduced these features:

Management must functionalize planning and control, centralizing it in a separate department.

Management must make a precise determination of the lines of authority and responsibility.

Management must define clearly the methods by which the various division and department heads can participate in planning.

Management must develop methods of control which are adapted to the needs of coordinated action in a decentralized organization.<sup>38</sup>

A successful plan of decentralization, therefore, necessarily involves many and varied methods of coordinating functions to insure adequate and smooth operations. First, the duties of everyone from top to bottom must be well defined. Second, the respective degrees of authority must be clearly

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<sup>38</sup> Raymond Villers, "Control and Freedom in a Decentralized Company," Harvard Business Review, March-April 1954, Vol. 32, No. 2, p. 90.



distinguished, understood and followed. Third, efficient channels of contact between personnel must be established, and fourth, the mechanics of organization—coordination and control of operations—must be clearly understood.





## CHAPTER IV

### THE CONCLUSION

#### Talk and Practice

A particularly revealing study directed by Helen Baker, associate director of Princeton's Industrial Relations Section, was completed in 1954. This study of centralization and decentralization of industrial relations in thirty-five companies showed that top-management since 1947 has developed a philosophical bias toward decentralization but that the tendency is to talk decentralization while practicing centralization. Baker expresses the discrepancy between attitudes and practice as follows:

A variety of reasons is involved in the discrepancy between philosophical preference and current practice. Decentralization is sometimes seen as a goal rather than as a description of present procedure. Even with the most sincere effort to implement philosophy, practice inevitably lags far behind. Differences in the definition of decentralization tend to confuse objectives. For example, the state of person-to-person relationships, rather than the extent to which authority for decision making is delegated, may be taken as a measure of decentralization. The conflicting goals of decentralization and of uniformly sound industrial relations in all plants make it difficult for a company to effectuate even the most sincere belief in the value of more extensive delegation of responsibility for industrial relations decisions. And last, decentralization is to some extent a fad, to some extent accepted as a panacea for the problems that have increased with an increase in the size and complexity of industrial organizations.<sup>39</sup>

The prime reason for the discrepancy between the philosophy and practice of management is to be found in the knotty problem of delegation. In

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<sup>39</sup>Baker, op. cit., pp. 195-96.





Chapter I we concluded that while authority may be divided many ways responsibility can be only partially delegated. An executive may delegate responsibility for doing a job but he still retains responsibility for seeing that the job is done. Therefore, it is apparent that no executive can afford to delegate authority without designing a system of control to safeguard responsibility.

Decentralization is acceptable only if the risk entailed by failure is not of excessive magnitude. It is essential that control be exercised at such intervals as is necessary to prevent damage in the case of failure. Despite all the talk and written material concerning decentralization, it appears that in most companies the chief executive continues to make most of the major decisions, either directly or through a formal framework of rules, checks and balances, informal instructions, and through indoctrination of subordinate personnel to act as the boss would act.

One objective of decentralization is relieving the superior executive of the burden of decisions, other than those dealing with serious emergencies or unusual situations. The presumption is that in the absence of his superior the subordinate can be trusted to make a decision that will be satisfactory. This entails more than the subordinate's intelligence, general background, and experience in the work that is being decentralized. It requires some assurance that an understanding of company and divisional objectives, policies, and procedures has been thoroughly inculcated in his mind. Baker reports the indoctrination process of one company as follows:

. . . the average experience at headquarters is eight or ten years before a man is sent out as a plant personnel manager. In this period the central staff can be sure that the man is fully indoctrinated with the company's policy on labor relations and that he is the type of person who will follow these policies. A similar practice is followed in choosing managers and even top level supervisors for outlying plants from among men in the home plant.<sup>40</sup>

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<sup>40</sup>Ibid., p. 79.

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## Objections to Decentralization

Decentralization has come to be rather widely accepted as an ideal form of organization, and in the past decade or so many companies have either put such a form of organization into effect or have at least developed it on paper. But the trend toward extensive decentralization is not accepted without objections, and in any particular case the degree of decentralization will vary greatly with the company concerned. Among the reasons for the resistance to decentralization the following may be mentioned:

1. Tradition. The Ford Motor Company grew up under one-man direction and is an almost perfect example of centralization. Mr. Ford built up the business from scratch and was familiar with its many aspects. His personal endorsement was required on all major decisions, and even for minor ones. As is well-known, this extreme centralization almost paralyzed the whole organization during the last years of his life.

2. Cost. Delegation of decision-making may be expensive. The degree of decentralization that is economical and effective tends to vary directly with the availability of trained subordinates. Under decentralization it is common to find efforts duplicated; for example, in addition to a centralized department at headquarters, part-time or full-time departments may be set up in the plants. The talent of personnel at either level may not be fully utilized. Autonomous division managers may be so intent on local profits and loss statements—by which they are judged—that they do not worry about national markets. Moreover, there may be friction and jealousy on the part of division managers with prima donna complexes.

3. Power. Power is the backbone of executive authority and delegation seems to imply a loss of power and control. The utilization of a large subordinate staff is likely to diffuse power, since the chief executive is rarely able to control fully the actions of his subordinates who may



The first of these is the fact that the United States is a young nation, and that its history is a history of growth and expansion. The second is the fact that the United States is a nation of immigrants, and that its history is a history of the struggle for a better life. The third is the fact that the United States is a nation of free men, and that its history is a history of the struggle for freedom.

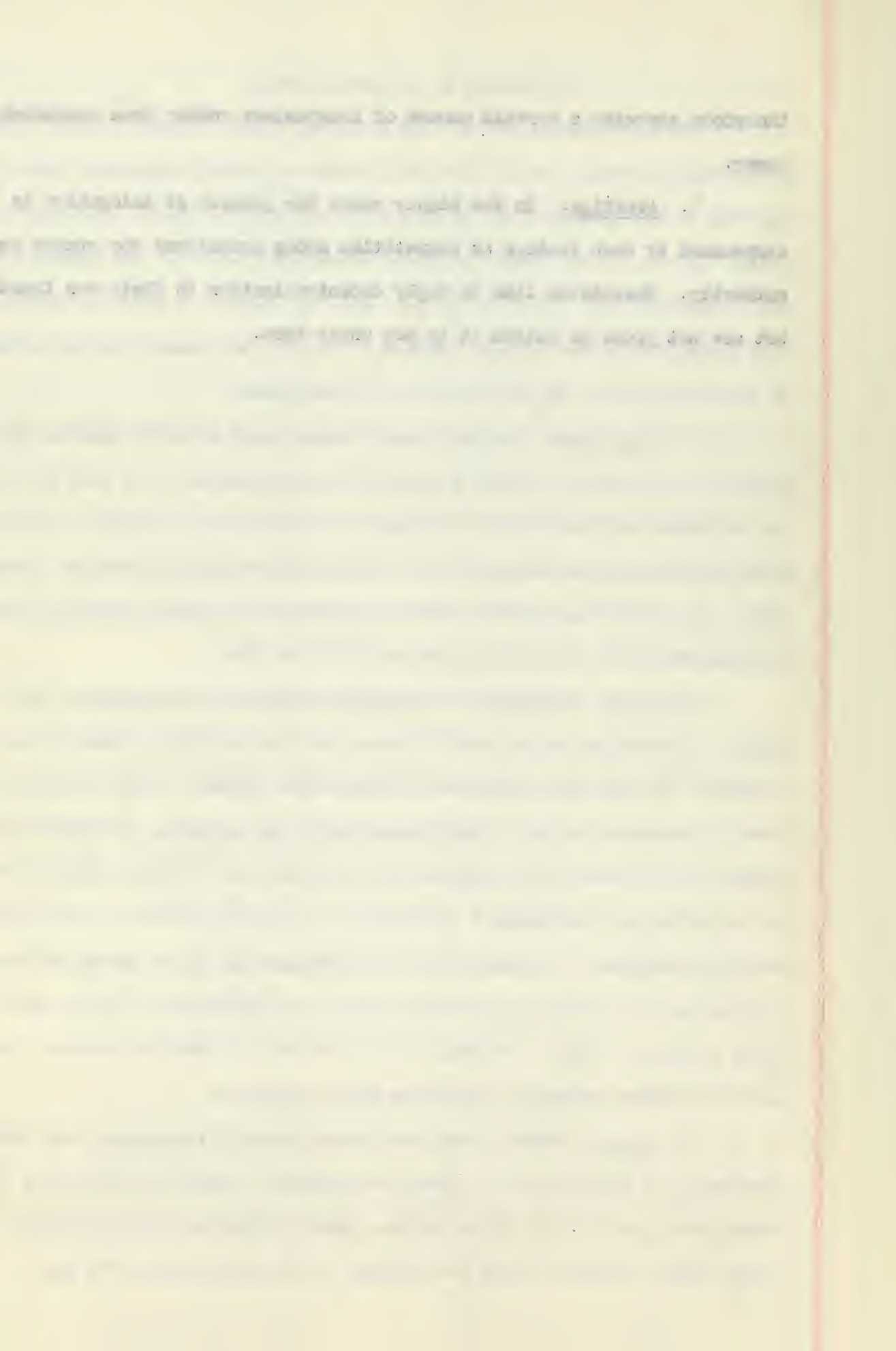
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therefore exercise a certain amount of independent rather than dependent power.

4. Prestige. In the higher ranks the process of delegation is compounded by such factors as competition among executives for status and authority. Executives like to apply decentralization to their own freedom but are not prone to extend it to men under them.





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1. The first part of the document is a list of names and addresses, which appears to be a directory or a list of contacts. The names are written in a cursive script, and the addresses are also written in cursive. The list is organized into two columns, with names on the left and addresses on the right.

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description of the project and its objectives.  
2. The second part contains a detailed description of the  
methodology used in the study.  
3. The third part presents the results of the study.  
4. The fourth part discusses the implications of the findings.  
5. The fifth part concludes the report and provides  
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